



May 23, 2003

Highlights of the Conference Report to Accompany H.R. 2, the Jobs and Growth Reconciliation Tax Act

Noteworthy

- Accelerates the phase-in of the child tax credit from \$600 to \$1,000 for 2003 and 2004. Provides rebate of up to \$400 in 2003. Credit drops to \$700 in 2005, increasing to \$800 in 2009 and back to \$1,000 in 2010.
- Accelerates the phase-in of the marriage penalty relief in 2003 and 2004. Returns to scheduled phase-in dictated by the 2001 tax relief bill which achieves complete marriage penalty relief in 2009.
- Accelerates to 2003 the marginal rate reductions contained in the 2001 tax relief bill.
- Adjusts the AMT exemptions to hold harmless taxpayers effected by provisions in the Jobs and Growth Act.
- Reduces the tax rates on capital gains from 10 percent for taxpayers in the bottom two tax brackets to five percent (zero percent in 2008) and from 20 percent for all other taxpayers to 15 percent. Provision reverts to current law in 2009.
- Applies the above capital gains tax rates to dividends which are currently taxed as high as 38.6 percent. Provision reverts to current law in 2009.
- Increases the amount a small business can expense from \$25,000 to \$100,000 for 2003, 2004, and 2005. Provision reverts to current law in 2006.
- Provides an immediate 50 percent depreciation for companies purchasing qualified property for one year.
- Provides \$20 billion over two years to states for fiscal relief – \$10 billion directly to the states for their use and \$10 billion for Medicaid (FMAP).

Highlights

Acceleration of Previously Enacted Tax Reductions

The conference report accelerates several of the phased-in tax reductions from the 2001 tax relief bill. The accelerated tax cuts are sunsetted (i.e., repealed) after a certain period. Upon sunseting, all accelerated provisions revert to current law as set forth in the 2001 tax relief bill.

Child Tax Credit

Senate Passed Bill. Accelerated the phase-in of the \$1,000 child tax credit. The amount of the child tax credit was increased to \$1,000 for 2003 and thereafter. For 2003, the increased amount of the child credit would have been paid in advance beginning in July 2003 on the basis of information on each taxpayer's 2002 return filed in 2003. Rebate checks would have been made in a similar manner to the advance- payment checks issued by the Treasury in 2001.

Conference Report. Accelerates the phase-in of the \$1,000 child tax credit. The amount of the child tax credit is increased to \$1,000 for 2003 and 2004. The acceleration sunsets in 2005, reverting to current law. Drops to a \$700 credit in 2005, increasing to \$800 in 2009 and back to \$1,000 in 2010. For 2003, the increased amount of the child tax credit (up to \$400) will be paid in advance, beginning in July 2003, based on information contained in the taxpayer's return for 2002.

Acceleration of the Ten-Percent Regular Income Tax Rate

Senate Passed Bill. Accelerated the scheduled increase in the taxable income levels for the 10 percent rate bracket. Specifically, beginning in 2003, the proposal would have increased the taxable income level for the 10 percent regular income tax rate brackets for single individuals from \$6,000 to \$7,000 and for married individuals filing jointly from \$12,000 to \$14,000. The taxable income levels for the 10 percent regular income tax rate bracket would have been adjusted annually for inflation for taxable years beginning after December 31, 2003.

Conference Report. Accelerates the scheduled increase in the taxable income levels for the 10 percent rate bracket. Specifically, beginning in 2003, the proposal increases the taxable income level for the 10 percent regular income tax rate brackets for single individuals from \$6,000 to \$7,000 and for married individuals filing jointly from \$12,000 to \$14,000. The Conference Report only adjusts the bracket for inflation for 2004. In 2005, the taxable income levels for the 10 percent bracket revert to the levels provided under current law.

Marriage Penalty Relief

Senate Passed Bill. Accelerated the increase in the basic standard deduction amount for joint returns to twice the basic standard deduction amount for single returns effective beginning in 2003. Accelerated the increase of the size of the 15 percent regular income tax rate bracket for joint returns to twice the width of the 15 percent regular income tax rate bracket for single returns beginning in 2003.

Conference Report. Accelerates the phase-in of the marriage penalty relief included in the 2001 tax relief bill to 2003 by increasing the basic standard deduction amount for joint returns to twice the basic standard deduction amount for single returns and accelerating the increase of the size of the 15 percent regular income tax rate bracket for joint returns to twice the width of the 15 percent regular income tax rate bracket for single returns. Provision sunsets in 2005, reverting to current law as set forth by the 2001 tax relief bill, which achieves complete marriage penalty relief in 2009.

Income Tax Rate Reductions

Senate Passed Bill. Accelerated the reductions in the regular income tax rates in excess of the 15-percent regular income tax rate that are scheduled for 2004 and 2006. For 2003 and thereafter, the regular income tax rates in excess of 15 percent were 25 (down from 27) percent, 28 (down from 30) percent, 33 (down from 35) percent, and 35 (down from 38.6) percent.

Conference Report. No change.

AMT Relief

Senate Passed Bill. Increased the AMT exemption amount for married taxpayers filing a joint return and surviving spouses to \$61,000 (up from \$49,000), and for unmarried taxpayers to \$41,750 (up from \$35,750), for taxable years beginning in 2003, 2004, and 2005.

Conference Report. Increases AMT exemption amount for married taxpayers filing a joint return and surviving spouses to \$58,000 (up from \$49,000) for taxable years beginning in 2003 and 2004, and for unmarried taxpayers to \$40,250 (up from \$35,750), for taxable years beginning in 2003 and 2004. Provision reverts to current law in 2005.

Other Provisions

Capital Gains Tax Relief

Conference Report. Reduces the tax rates on capital gains from 10 percent for taxpayers in the bottom two tax brackets to five percent (zero percent in 2008) and from 20 percent for all other taxpayers to 15 percent. These lower rates apply to both the regular tax and the alternative minimum tax. The lower rates apply to assets held more than one year. The provision reverts to current law in 2009.

Senate Passed Bill. Contained no provision regarding capital gains tax rates.

Dividend Tax Relief

Senate Passed Bill. Excluded from taxation 50 percent of dividend payments made to an individual in 2003 and increased the exclusion to 100 percent in the years 2004, 2005, 2006.

Conference Report. Dividends received by an individual shareholder are taxed at the same reduced rates (described above) that apply to capital gains. The capital gains rate reductions are effective as of May 6, 2003 while the treatment of dividends is made retroactive to January 1, 2003. Provision reverts to current law in 2009.

Small Business Expensing

Present Law. Present law provides that, in lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment may elect to deduct up to \$25,000 (for taxable years beginning in 2003 and thereafter) of the cost of qualifying property placed in service for the taxable year (sec. 179). In general, qualifying property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. The \$25,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds \$200,000.

Senate Passed Bill. Provided that the maximum dollar amount that may be deducted under section 179 is increased to \$75,000 for property placed in service in taxable years beginning in 2003 through 2012. In addition, the \$200,000 amount was increased to \$400,000 for property placed in service in taxable years beginning in 2003 through 2012. Both of these dollar limitations were indexed annually for inflation for taxable years beginning after 2003 and before 2013.

Conference Report. Provides that the maximum dollar amount that may be deducted under section 179 is increased to \$100,000 for property placed in service in taxable years beginning in 2003, 2004, and 2005. In addition, for purposes of the phase-out of the deductible amount, the \$200,000 amount is increased to \$400,000 for property placed in service in taxable years beginning in 2003, 2004, and 2005. The dollar limitations are indexed annually for inflation for taxable years beginning after 2003 and before 2006. The provision reverts to current law in 2006.

Bonus Depreciation

Present Law. Under current law, a company must deduct the cost of newly purchased qualified property over several years according to a modified accelerated cost recovery system. However, The Job Creation and Worker Assistance Act of 2002 provided an additional first-year depreciation deduction equal to 30 percent of the adjusted basis of qualified property. This provision allows a company to write off 30 percent of the cost of qualified property in the first year it is purchased.

Senate Passed Bill. No change to existing law.

Conference Report. Provides an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of qualified property. In general, in order to qualify for the 50 percent additional depreciation deduction, the property must be acquired after May 5, 2003, and before January 1, 2005. Property does not qualify if there was a binding written contract for the acquisition in effect before May 6, 2003. Property for which the 50 percent additional first-year depreciation deduction is claimed is not eligible for the 30 percent additional first-year depreciation deduction.

Temporary State Fiscal Relief Fund

Senate Passed Bill. Established a temporary fund to provide \$20 billion, divided among state and local governments, to be used for health care, education, or job training; transportation or infrastructure; law enforcement or public safety; and other essential government services. In addition, a portion of the total amount would have been transferred to states under Title XIX of the Social Security Act (Medicaid).

Conference Report. Provides federal funds directly to States, establishing a temporary fund to provide \$10 billion divided among the States to be used for essential governmental services, and \$10 billion for Medicaid (FMAP). The provision applies to 2003 and 2004.

Miscellaneous

Eliminates all revenue offsets included in the Senate-passed bill and all amendments added to the Senate-passed bill during floor consideration.